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**DEPARTMENT OF DEVELOPMENT & ENVIRONMENTAL STUDIES**



**Activating "Waqf" and "Zakat" in Tackling Poverty and Supporting  
Investment in Palestine: Chances and Challenges**

**Aktivace waqfu a zakátu jako nástrojů boje proti chudobě a podpory  
investicí v Palestině: možnosti a příležitosti**

(Master's Thesis)

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## **Declaration of Authorship**

I do solemnly declare that I have written the presented master's thesis *Activating "Waqf" and "Zakat" in Tackling Poverty and Supporting Investment in Palestine: Chances and Challenges* independently and that I have correctly acknowledged all bibliographical references and quotations.

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Signature:.....

# Acknowledgement

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## **Abstract**

The aim of this thesis is to analyze the chances of both "Waqf" and "Zakat" as sources of funds and investment and as tools to tackle poverty in Palestine by demonstrating good practices and experience. The thesis also focuses on the impediments and challenges of collecting "Zakat", and the misuse of it by those who are employed to collect the funds.

## **Keywords**

Waqf, Zakat, Sadaqah, poverty, Palestine.

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## Introduction

*“And those within whose wealth is a known right, for the petitioner and the deprived [The Noble Quran 70: 24 – 25]. This verse from the Noble Qur’an is clarifying clearly the responsibilities of the rich people toward the poor people as kind of social solidarity in the Islamic community. Another substantiation for that commitment towards the poor people mentioned in the following *Hadith*, when the *Prophet Muhammad* sent *Muadh ibn Jabal* as a governor and a teacher to Yemen, and instructed him “You will soon find yourself in a community one among the people of the Book, so first call them to testify that there is no god but Allah, that I (Muhammad) am the messenger of Allah, and if they accept this, then tell them Allah has enjoined upon them five prayers during the day and the night and if they accept it, then tell them that Allah has made Zakat obligatory for them that it should be collected from the rich and distributed among the poor, and if they agree to it don't pick up (as a share of Zakat) the best of their wealth. Beware of the supplication of the oppressed for there is no barrier between him and Allah” (Sahih Muslim: Book 001, Number 0027). This kind of payment is imposed to cleanse the income and the wealth anything that would violate from the rights of others such as the poor people (Hossein Askari et al., 2014: 254).*

Ways of tackling poverty in Islam were subjects of in many books before. It is known that the Islamic scholars and believers think that Islam cannot be restricted to purely religious practices only, but it is much larger than that and it should include the entire way of life. It includes several systems such as financial, economic, social, judicial, regulatory, and so forth.

There are several basic principles of the Islamic financial system such as prohibition of interest, risk sharing, money as a potential capital when it is combined with other resources to undertake a productive activity, prohibition of speculative behavior such as gambling, and the preservation of property rights (Zamir Iqbal and Abbas Mirakhor, 2011). However, this paper will mainly focus on two examples from the Islamic economic system, namely, *Zakat* and *Waqf*. The *Zakat* is an obligatory duty for a Muslim. It is earmarked for the poor people and other limited types of recipients prescribed by the *Shari'a*. The *Waqf* is a voluntary charity created with the purpose of making good deeds for a reward from *Allah*. *Waqf* can be earmarked for specific charity use or it could be more general, which makes it more flexible investments or for a choice of recipients and beneficiaries. These honorable Islamic regulations can become useful tools for reducing the poverty rate and improving the economic situation in Palestine. Helpfully, some Islamic rules are already in use in Palestine such as inheritance system, marital system, and so forth. According to Article 7 of the Constitution of the state of Palestine “*Principles of Islamic the Shari'a are a primary source of legislation. Civil and religious matters of the followers of monotheistic religions shall be organized by their religious teachings and denominations within the framework of law, while preserving the unity and independence of the Palestinian people*” (CONSTITUTION OF THE STATE OF PALESTINE, 2003: Article 7).

Placing this context in the constitution of Palestine has explicitly encouraged me to study possibilities of alignment between Islamic religious obligations of *Zakat* and *Waqf*, and the commitment of the state to tackle poverty through taxation, even though the purposes of *Zakat* and taxes might be different.

Poverty is a serious problem not only in Palestine, but it could be recognized as one of the most serious problems in the world. The poverty rate in Palestine has been growing. It was 25.8% there (i.e. 17.8% in the West Bank and 38.8% in the Gaza Strip), while the extreme poverty was 12.9% there (i.e. 7.8% in the West Bank and 21.1% in the Gaza Strip) in 2011. The thing noted here was that the poverty rate increased by 0.4% in 2011 comparing to 2010 (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 115). Also, it should be noted that the Palestinian economy is highly connected with the Israeli economy because of the Israeli occupation that is the main reason why; the Palestinians are unable to fully control their regions or to apply any economic development policies independently.

### **Key objectives**

- To analyze the possibilities of activating and integrating Zakat and Waqf as parts of the economic system in Islam at the Palestinian economy to tackle poverty and as additional investment vehicles.

### **Research questions**

- What are the characteristics of Zakat and Waqf as parts of the economic system in Islam aimed at reducing poverty, and how can they be used as a vehicle for investments in the Palestinian regions?
- What is the current situation of the Palestinian economy?
- How can Zakat and Waqf promote investments in the Palestinian regions?
- What are the challenges and impediments of developing Zakat and Waqf systems in the Palestinian regions?
- To what extent might the Malaysian Zakat management system serve as a good example for Palestine?

### **Methods**

In this thesis, the inductive and analytical method has been used to answer the study questions by following a number of scientific views from books and authoritative sources found on the internet, focusing on the characteristics of Zakat and Waqf the same time avoiding differences of researchers' opinions on various issues.

### **Structure of the thesis**

The first chapter *Zakat and Waqf in Islam* will discuss the meaning of wealth, the real owner of that property and the rights of poor people in that wealth according to the teachings of Islam. The meaning, legitimacy and importance of Zakat, Waqf, social responsibility, Sadaqat ul-Fitr (i.e. holiday charity) and Qard Hassan (i.e. sound lending) practices will be demonstrated including their types, characteristics, components, conditions, a group of recipients and beneficiaries, and the purposes for each of them.

The second chapter *Overview of Palestine* will make a general introduction and demonstration a brief history of Palestine including its population and demography. Then, it will continue talking about the struggles with the Israeli occupation of the Palestinian regions, and how it became a risky area for the foreign investment. An overview of the situation of the Palestinian Economy and the rate of poverty is part of this chapter too.



The third chapter *The institutions Zakat and Waqf in Palestine* will discuss three topics. The first one is the *current situation and institutions of Zakat and Waqf* operating in the Palestinian regions along with giving some practical examples of these establishments. The second topic is the *Management of collection, investment, and distribution of revenues from Zakat and Waqf*, including active fundraising for Zakat and Waqf and how it can improve the Zakat collection efforts. The topic will describe some practical ways for investing Zakat and Waqf funds. It will also discuss practical ways for distribution of Zakat and Waqf revenue. The third topic is the *challenges and impediments* affecting the collection and distribution of Zakat and Waqf funds.

The fourth chapter is called *Investment of Zakat: A Case Study of Malaysia as a role model for Palestine*. It will discuss the Malaysian experience in managing Zakat funds including their Zakat institutions structure, methods of collecting Zakat, and ways of investing those funds.

The last chapter will present the conclusion of the thesis, along with some recommendations.

## Chapter 1 - Zakat and Waqf in Islam

This section is divided into seven broad sections. A general introduction to the meaning of money and wealth, and the true owner of the money and wealth, including the rightful share of the poor in that money according to the teachings of Islam is the topic of the first section. To situate the context of the social responsibility in Islam is the focus of the second section. The third section is focusing on the legislation, types and eligibility classes of Zakat in Islam, types of Zakat. The fourth section is focusing on the meaning, types and conditions and legitimacy of Waqf in Islam, with the demonstration of differences between Waqf, Sadaqah, and Zakat. Demonstrating another form of charity called *Sadaqat ul-Fitr* is the focus of the fifth section. To place the context of interest -free -loans called Beneficence loans or *Qard Hassan* is the focus of the sixth section. And the conclusion of this chapter is the focus of the last section.

### 1.1 Introduction

According to the Islamic scholars and general consensus of the believers, Islam cannot be only restricted to religious ritual, but it is much broader than that. It includes the way of life for the people too. It is recognized as a complete integrated system which regulates all issues of interest to the people in their life such as the financial and economic system, social system, judicial system, punishments system, and so forth. Also, *Shari'a* regulates the relations of people themselves to their wealth. This can be best described by the equality of as *Allah* as a total and complete ultimate true owner of any property and wealth. Allah simply entrusts the people to use that wealth appropriately. In other words, wealth is considered an endowment and a gift from God, and the human are the trustees of God's resources on earth (Financial Islam, 2017). And because of that, *Shari'a* defines some rules to regulate that relationship. One of these rules is sharing certain percentages of the wealth as the right of the other people such as the poor, the relatives, and so forth. Another rule is that wealth cannot be spent on the prohibited things according to the teaching of Islam such as gambling, or even giving some of that wealth to the foolish people, and so forth.

*“And give not unto the foolish your property which Allah has made a means of support for you, but feed and clothe them therewith, and speak to them words of kindness and justice”*  
[The Noble Quran 3: 5].

These rules are defined and regulated by *Shari'a* to protect the private money and wealth, as same as protecting their souls and honor. The *Prophet Muhammad* said:

*“No doubt! Your blood, your properties, and your honor are sacred to one another like the sanctity of this day of yours, in this (sacred) town (Mecca) of yours, in this month of yours.”*  
*The Prophet repeated his statement again and again”* [Sahih Al-Bukhari: Book 26, Number 795].

However, sharing some of the wealth could become obligatory according to *Shari'a* in some cases such as payment of Zakat, or upholding the ties of kinship as a right of the relatives.

Another way of sharing wealth can be voluntary and used as an *expiation for sins* i.e. in order to clean the believers' souls and their bodies from the sins. Cases of this type include setting up a Waqf or donation for charity or *Sadaqah*.

*“Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah’s blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing”* [The Noble Quran 9: 103].

Another verse from the Noble Quran arguing for that:

*“Not upon you, [O Muhammad], is [responsibility for] their guidance, but Allah guides whom He wills. And whatever good you [believers] spend is for yourselves, and you do not spend except seeking the countenance of Allah. And whatever you spend of good - it will be fully repaid to you, and you will not be wronged”* [The Noble Quran 2: 272].

## **1.2 Social Responsibility in Islam**

Building a cohesive society requires collaboration among its members side by side with aim of spreading the culture of love, mercy, and tolerance. Otherwise, the society will degrade and collapse. According to Islamic scholars, there are several types of social responsibility in Islam. They include the moral, economic, and other kind of responsibility. Two examples of the moral responsibility are mentioned in the following verse from the Noble Quran, as well as in many Prophetic narration:

*“The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong and establish prayer and give Zakat and obey Allah and His Messenger. Those - Allah will have mercy upon them. Indeed, Allah is Exalted in Might and Wise”* [The Noble Quran 9:71].

In the following narration, the Prophet emphasized the importance of responsibility among the members of society.

*“The example of the person abiding by Allah's orders and limits (or the one who abides by the limits and regulations prescribed by Allah) in comparison to the one who does wrong and violates Allah's limits and orders is the example of people drawing lots for seats in a boat. Some of them got seats in the upper part while the others in the lower part; those in the, lower part have to pass by those in the upper one to get water,*

*and that troubled the latter. One of them (i.e. the people in the lower part) took an ax and started making a hole in the bottom of the boat. The people of the upper part came and asked him, (saying), 'What is wrong with you?' He replied, 'You have been troubled much by my (coming up to you), and I have to get water.' Now if they prevent him from doing that they will save him and themselves, but if they leave him (to do what he wants), they will destroy him and themselves."* [Sahih Al-Bukhari: Book 48, Number 851].

The lesson of this narration is that each Muslim has private and public responsibilities towards his community, and he should care about things beside himself.

To describe the economic solidarity more, Islam forbids the monopoly and hoarding of wealth (Mustafa Koylu, 2003: 97). Hoarding means the accumulation of articles, money or other valuables, preserved for future use.

*"O you who have believed, indeed many of the scholars and the monks devour the wealth of people unjustly and avert [them] from the way of Allah. And those who hoard gold and silver and spend it not in the way of Allah - give them tidings of a painful punishment. The Day when it will be heated in the fire of Hell and seared in addition to that will be their foreheads, their flanks, and their backs, [it will be said], "This is what you hoarded for yourselves, so taste what you used to hoard."* [The Noble Quran 9:34-35].

According to the teachings of Islam, there is a difference between hoarding money and saving money. If the purpose of saving money is to build a house or to establish any business, then it will be permissible according to the teaching of Islam. While hoarding means the purpose of keeping just for accumulation money as it does not affect the market nor does it affect the employment cycle without payment of Zakat according to [Taqī al-Dīn Nabhānī, 2002: 284]. Paying particular attention to the rights of relatives and orphans according to the teaching of Islam is another view of the importance of social solidarity among the community.

*"I and the one who looks after an orphan will be like this in Paradise" showing his middle and index fingers and separating them.* [Sahih Al-Bukhari: Book 63, Number 224].

It means that the Prophet and the one who looks after an orphan will be both in Paradise on the Day of Judgment according to the Islamic scholars.

However, the key point for social responsibility in Islam is not only to fulfill the basic needs of the needy and the poor such as food, education, clothes or shelter but to let them earn capital to be more productive in their society too.

### 1.3 Zakat

Islam has five pillars, and Zakat represents the third pillar of Islam. Each Muslim is required to follow the commandment of Islam rigorously.

*“The superstructure of al-Islam is raised on five (pillars), i. e. Allah (alone) should be worshiped, and (all other gods) beside Him should be (categorically) denied. Establishment of prayer, the payment of Zakat, Pilgrimage to the House, and the fast of Ramadan (are the other obligatory acts besides the belief in the oneness of Allah and denial of all other gods).”* [Sahih Muslim: Book 001, Number 0021]

This type of Zakat, known as *Zakat-Mal* or *Zakat of Money*, and it is different than *Zakat Al-Fitr* which will be explained in next sections.

#### 1.3.1 Meaning of Zakat

In the literal Arabic language, the Zakat means “*cleansing or purification*” and it goes to clean the souls and bodies from sins, according to this verse in the Noble Quran:

*“He has succeeded who purifies it (the self)”* [The Quran 91: 9].

Another meaning of Zakat in the literal Arabic language is the “*growth*” (The Central Zakat Committee, 2005: 2), and it goes to increasing the reward exponentially many times over:

*“Who is it that would loan Allah a goodly loan so he may multiply it for him many times over? And it is Allah who withholds and grants abundance, and to Him, you will be returned”* [The Noble Quran 2: 245]

The idiom of Zakat in Islam means the process where a certain amount of property or money is collected from those who are sufficiently endowed and then given to the needy group, with donors, recipients, and a specific proportion of required donation (Omer Faruk Senturk, 2007: 4). This is an obligatory charity upon wealthy individuals. The wealthy Muslim person is eligible to pay Zakat who has the *Nisab* for the entire lunar year. And *Nisab* means the minimum amount of wealth to be obligated to give the Zakat. The straightforward calculation of *Nisab* is 20 Gold Dinars or more, which is equivalent to three ounces (85 grams) of gold, or 200 Silver Dirhams or more which is equal to 200 ounces (5670 grams) (The Central Zakat Committee, 2005: 8). However, there are many types of wealth, with a formula to calculate the *Nisab* for each one. However, this topic will be explained later on in this thesis.

#### 1.3.2 Validity of Zakat Payment

##### Group of People barred from receiving Zakat

Although Zakat is an obligatory payment or duty on Muslims according to the teachings of Islam; and there is a group of individuals prohibited from receiving Zakat. *The first group*

is all members of *Ahl al-Bayt* or *the family of Prophet Muhammad*. They are known as the descendants of *Banu Hashim* or *Hashemites*. This story behind that ban was when *Hassan bin Abi Taleb*, the grandson of the *Prophet Muhammad* by his daughter *Fatima* wanted to eat *dates* which were collected as *Zakat*, but the prophet cautioned him and asked to leave it because it is forbidden for the prophet's family.

*“Hasan bin Ali took one of the dates of sadaqa [Zakat] and put it in his mouth, whereupon the Prophet said, leave it, leave it, throw it; don't you know that we do not eat the sadaqa [Zakat]?”* [Sahih Muslim: Book 005, Number 2339]

The *second group* are the descendant and ascendant of the *Zakat payer* because this group of people are under the *Zakat's* payer financial responsibility to cover their needs. The third group is the descendants such as children and grandchildren. The descendants include the children and grandchildren, and the ascendants include parents and grandparents. The *third group* are the spouses of the *Zakat's* payer. A similar case of the descendant and ascendant, but some Islamic scholars allowed for a wealthy wife to pay *Zakat* on her poor husband because the man is supposed to be responsible for spending on the family. The *fourth group* is being rich or ability/qualified to work. This condition makes sense because they are supposed to pay *Zakat* instead of receiving it. The exception is when they are debtors or travelers. In this case, they will be eligible to receive *Zakat*, and that will be mentioned later on in this thesis. The *fifth group* is being not Muslim. It is a controversial condition for some Islamic scholars. However, I will not go through this case deeply. Just to revisit that the *Zakat* is an obligatory duty for Muslims only according to the teachings of Islam.

### **Conditions of paying Zakat**

A set of conditions must be available to be eligible for paying *Zakat*. It includes the religion of *Zakat payer* and the source and amount of the wealth that eligible. *The first condition* is that the Payer of *Zakat* must be Muslim. It makes sense because the *Zakat* is a religious duty, then it is not obligatory for non-Muslims. *The second condition* is that the Payer of *Zakat* must be free, sane, and have reached puberty. Otherwise, he will not be able to dispose of the Money in full awareness. *The third condition* is that the *Zakat payer* should have *Nisab* for the entire lunar year. The *Nisab* is the minimum wealth that makes the *Zakat* obligatory. However, more details of *Nisab* will be mentioned in the next section of this thesis. *The fourth condition* is that the *Zakat* should be paid to the eligible recipients of *Zakat* only. Otherwise, it will not be accepted as *Zakat* payment. However, those eligible recipients will be mentioned in next section in this *thesis*. *The fifth condition* is that the capital which is eligible for *Zakat* must come from a legal source, and the teachings of Islam must permit it. As an example, money coming from usury is forbidden and unacceptable. *The sixth condition* is the intention of paying *Zakat* to be accepted by Allah, although, we do not know what is in the hearts of others. However, *Zakat* as any other religious duty in Islam requires an intention to be accepted by Allah. And the place of intention is in the heart. According to the narration mentioned at Sahih Al-Bukhari (Book 1, Number 1):

*“The reward of deeds depends upon the intentions and every person will get the reward according to what he has intended. So whoever emigrated for worldly benefits or for a woman to marry, his emigration was for what he emigrated for”*

### **1.3.3 Zakat rate and meaning of Nisab**

There is an essential condition to make the saved or invested wealth obligated to pay its share of Zakat; it is when the property reaches the *Nisab* for the entire lunar year. In other words, the *Nisab* means the minimum property that makes the Zakat obligatory as mentioned before in the previous sections. The wealth is not only money or gold, but it could be agriculture products or cattle too. In the case of agricultural goods and cattle; Zakat must be made immediately after possession.

*“And He it is who causes gardens to grow, [both] trellised and untrellised, and palm trees and crops of different [kinds of] food and olives and pomegranates, similar and dissimilar. Eat of [each of] its fruit when it yields and give its due [Zakat] on the day of its harvest. And be not excessive. Indeed, He does not like those who commit excess” [The Noble Quran 6: 141].*

The rate of *Nisab* for each type of wealth forwarded by *The Central Zakat Committee* (2005: 10) is summarized in the following table:

<b>Type of wealth</b>	<b>Nisab</b>	<b>Zakat rate in possession for entire lunar year</b>	<b>% of Zakat after possession immediately</b>
Gold	20 Gold Dinars or more, which is equivalent to <u>three ounces</u> (85 grams) of gold	2.5%	
Silver	200 Silver Dirhams or more which is equivalent to 200 ounces (5670 grams)	2.5%	
Savings and invested wealth	Equivalent to “Nisab” of gold.	2.5%	
Agriculture products	5 Awsuq (equivalent to 653 Kilograms of wheat)		Cultivated land → 5% Non-cultivated land → 10%
Sheep and goats	40 heads		1, but it is changeable according to the number of heads.
Cows	30 heads		1, but it is changeable according to the number of heads and age of cows
Camels	5 heads		1, but it is changeable according to the number of heads and age of camels.

Table 1: rate of Nisab based on the type of wealth (The Central Zakat Committee, 2005: 10)

#### 1.3.4 Distribution of Zakat – Recipients of Zakat

As the Noble Quran imposed the Zakat on Muslims only; it clearly outlines the groups who are eligible recipients of Zakat for eight groups of people.

*“Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise” [The Noble Quran 9: 60]*

The *poor* (i.e. Al-Fuqara), from the outset, the Islamic scholars have some difficulties to define ‘Poor’.

*“[Zakat is] for the poor who have been restricted for the cause of Allah, unable to move about in the land. An ignorant [person] would think them self-sufficient because of their restraint, but you will know them by their [characteristic] sign. They do not ask people persistently [or at all]. And whatever you spend of good - indeed, Allah is knowing of it.” [The Noble Quran 2: 273]*

However, the poor can be defined as those do not own enough to be eligible to pay Zakat (The Central Zakat Committee, 2005: 13).

The *needy* (i.e. Masakin): those who are in deep poverty, and cannot adequately support himself/herself. Because of their situation, they might ask for help (The Central Zakat Committee, 2005: 13).

Those *employed to collect Zakat* (i.e. Al-Amileena Alaiha): to administrate the collection and distribution of Zakat [The Central Zakat Committee, 2005: 14]. These types of recipients include the *collectors* of Zakat funds, the *distributors* of Zakat to its recipients and beneficiaries, the *custodians* or *treasurers* of Zakat and charity, the *accountants* of Zakat funds, and the *manager* or the *officers in charge* of the Zakat committee who are managing the Zakat committee by hiring all employees and facilitating their work. Any *laborers* of Zakat are included in this type of recipient too.

Those *whose hearts are to be reconciled with Islam*, known as *Mu'allafat Al-Qulub*, include the new Muslims or the non-Muslims whose hearts incline towards Islam. This type of Zakat recipient is debatable among the Islamic scholars. However, I will not go more particularly into a discussion of this type of recipients in this essay. The *slaves or free captives* (i.e. Fir-Rikaab): freeing of those in slavery. However, this type of recipient is no longer available due to the extinction of the slavery system nowadays.

The *debtor*, known as *Al-Gharimeen*, those who are in debt. Zakat money could be used to pay off the debt or part of it at the time of receiving Zakat. The *cause of Allah* (i.e. Fi-Sabeel Allah) those who are working in the cause of Allah, such as the preaching of Islam. Also, it includes supporting a battle declared by the state for just cause.



The [stranded] *traveler or wayfarer* (i.e. Ibn AsSabeel), the traveler who is in need of help during his travel. However, the purpose of travel should be permissible. As in the case of a wealthy man in his residence, but in the particular time he became stranded and needed financial support to return home.

### **1.3.5 Characteristics of Zakat workers and distributors**

Selecting employees or distributors of Zakat has to follow some rules. First, the rule is the worker of Zakat should be *Muslim*. As mentioned in this thesis, Zakat is an Islamic religious duty or jurisdiction over Muslims. The second rule is the worker of Zakat should be *Sane and mature*, so he or she will be able to take the responsibility, and it will be nonsense to hire or employ a child as an example to collect the Zakat funds. The third rule is the worker of Zakat should be a *trustworthy, righteous and honest individual*, so the untrustworthy employee might waste or steal the Zakat funds. The fourth rule is the worker on Zakat must have *general and complete knowledge of Zakat rulings and regulations*, as the worker who is not aware of the Zakat rules and regulations may have fault more than his senses. The fifth rule is that the worker on Zakat should be characterized by *efficiency and performance* (NZF, 2016), as the collection, management, and distribution of Zakat need patience and follow-up on the work.

“... *the best one you can hire is the strong and the trustworthy*” [The Noble Quran 28:26]

### **1.3.6 A great sin with no payment of Zakat in Islam**

As mentioned before in this chapter, Zakat is the third pillar of Islam, and the non-payment of Zakat is an act that is displeasing to Allah, and one of the great sins according to the teachings of Islam. Allah warns those people from the divine retribution on the Day of Judgment.

“*And let not those who [greedily] withhold what Allah has given them of His bounty ever think that it is better for them. Rather, it is worse for them. Their necks will be encircled by what they withheld on the Day of Resurrection. And to Allah belongs the heritage of the heavens and the earth. And Allah, with what you do, is [fully] Acquainted*” [The Noble Quran 3: 180]

According to the Islamic scholars, the wealthy people should pay Zakat because Allah has given them more wealth than others, and avoiding paying Zakat can be recognized as committing a crime against the poor by denying their right according to *Emerick* (2004: 144).

## **1.4 Waqf**

It is also known in the plural as *Awqaf* is a voluntary charity. Also, it means to prevent or restrain the thing from becoming the property of a third person. The Islamic scholars defined it as the permanent dedication by a Muslim of any property, in such a way that the appropriator's right is extinguished, for the charity or for religious purposes, or for founder of

the waqf during his life and after his death, for his descendants and on their extinctions, to a purpose defined by the founder according to *Jamal J. Nasir* (1990: 274).

#### **1.4.1 Legitimacy of Waqf in Islam**

The legitimacy of Waqf in Islam is constant in the *Noble Quran* and the *Sunnah*, as those are the two primary resources of Islamic laws or *Shari'a* (Rehman, 2007: 82). Many verses in *the Noble Quran* and prophetic speech urge the Muslims to give the charity and endowment. The type of that charity is Waqf as stated before in this thesis.

*“Never will you attain the good [reward] until you spend [in the way of Allah ] from that which you love. And whatever you spend - indeed, Allah is Knowing of it” [The Noble Quran 2: 92]*

*“The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing” [The Noble Quran 1: 261]*

*“Save yourself from Hell-fire even by giving half a date-fruit in charity” [Sahih Al-Bukhari: Book 24, Number 498]*

Waqf is one form of the *sadaqah* or charity. It is not obligatory for Muslims but voluntary as mentioned before in this section. The first Waqf established in the early days of Islam included mosques, farms, wells, and so forth. An example of Waqf is the *Quba mosque*; it was the first Waqf in Islam. The Mosque at the time was not a place for worshiping or praying only, but a place for religious instructions, political discussion, and acting school too (Carlo Caldarola, 1982: 282). Mosques played and still play central roles in the Muslim community. A second example of Waqf are the *wells*. The story behind that was Uthman bin Affan, *the third caliph* bought a well in *Madinah* called *Romma Well*, and he made it a public trust property for the benefit of all till today (Abu Tariq Hijazi, 2008: 47). Before buying that Well; the people of *Madinah* needed to buy that water with an high price, especially during the summer time due to lack of rain. The third example of Waqf are the *farms*. The following story shows the importance of Waqf to make good deeds for a reward from Allah from *Allah* according to the teachings of Islam. In this story, it sets giving priority to the relatives of *Waqif* or the founder of Waqf from other beneficiaries to take advantages of Waqf to emphasize the importance of kinship.

*“Abu Talha had more property of date-palm trees gardens than any other amongst the Ansar in Medina and the most beloved of them to him was Bairuha garden, and it was in front of the Mosque of the Prophet. Allah's Apostle used to go there and used to drink its nice water.” “When these verses were revealed:--'By no means shall you Attain righteousness unless You spend (in charity) of that Which you love.' [The Noble*

*Quran 3: 92] Abu Talha said to Allah's Apostle 'O Allah's Apostle! Allah, the Blessed, the Superior says: By no means shall you attain righteousness unless you spend (in charity) of that which you love. And no doubt, Bairuha' garden is the most beloved of all my property to me. So I want to give it in charity in Allah's Cause. I expect its reward from Allah. O Allah's Apostle! Spend it where Allah makes you think it feasible.' On that Allah's Apostle said, 'Bravo! It is a useful property. I have heard what you have said (O Abu Talha), and I think it would be proper if you gave it to your Kith and kin.' Abu Talha said I will do so, O Allah's Apostle.' Then Abu Talha distributed that garden amongst his relatives and his cousins" [Sahih Al-Bukhari: Book 24, Number 540].*

However, when comparing between what the state's roles in the modern concept by providing public services in such fields as health care, education, and social security, we found that a big portion of the financial budget is spent in these areas. While, a variety of Awqaf performed much of these services during the Islamic communities' history (Mohammed Tamimi and Mohammed Eicherla, e: 1982). Another thing is that the investment of Waqf is important and highly recommended to keep it sustained for the future and next generations.

#### **1.4.2 Differences between Waqf, Zakat, and Sadaqah**

Although Waqf is one form of *sadaqah* or charity as mentioned before in the previous sections, but there are some differences between these terms *Waqf* and *Sadaqah*. The first difference is that the income of the Waqf property is only spent, but in *sadaqah* the corpus may also be consumed according to *Dr Rakesh Kumar Singh* (2011: 294). Another difference is that the Waqf is an endowment but *sadaqah* is only a donation (Dr Rakesh Kumar Singh, 2011: 294). Also, the Waqf is ongoing charity, and it takes an institutional act, while *sadaqah* is a personal charity. In other words, a waqf is a form of *sadaqah* (institutionalized *sadaqah*), while *sadaqah* is un-institutionalized waqf (Financial Encyclopedia, 2014).

About the difference between Waqf and Zakat, the first difference is that Waqf as a voluntary charity is not sanctioned by Islamic laws as is the case of obligatory duty such as Zakat. The second difference, there is a particular time to pay Zakat, while there is no time restriction for Waqf. Another point is that there are certain restricted recipients of Zakat, while the beneficiaries of Waqf might be unlimited or the founder of charity could define it. It has been recently explored as a way to extend Muslim civil society organization work more development-oriented approaches and support art, culture, or environmental protection (Ibrahim et al., 2008: 5). Also, the amount of Zakat is known or can be calculated, while it is unlimited in case of Waqf, or the founder of charity could define it. The Investment of Zakat is highly restricted because of the possibility of losing money as a result of fluctuations in the markets, and therefore not to get the benefit from that money directly. But in the case of Waqf is more flexible and the founder of charity could define it. However, in both cases, the source

of wealth should come from permissible things according to the teachings of Islam to be acceptable to *Allah*.

### **1.4.3 Characteristics, components, and conditions of Waqf**

#### **Characteristics of Waqf**

There are two key features of Waqf; one of them is being *Perpetuity* when it is established. In other words, when the land, building or any property are defined as Waqf, then it will remain Waqf forever. The second characteristic is when the Waqf is a voluntary charity, then the conditions of the founder of Waqf should be fulfilled. In other words, Waqf should stay on purpose created for by the founder of Waqf as long as the circumstances of creating Waqf are still feasible.

#### **Components of Waqf**

There are several elements of Waqf, and *the first element* is the founder of Waqf known as *Waqif*. *The second element* is the *Mawquf*, which is the land, building, cash or property that is endowed as Waqf. *The third element* is *Mawquf lahu* or the beneficiaries of Waqf. It might include Muslims and non-Muslims, wealthy or poor people, and so forth. *The fourth element* is *Mutawalli al-waqf*: and he is the trustees or the person who is assigned as legal custodianship over the Waqf (or Mawquf) (ISRA, 2015).

#### **Conditions of Waqf**

A set of conditions must be available to accept Waqf. *The first condition* is that the founder of Waqf (Waqif) should be mature, sane, and free as the complete owner of the property that will be endowed as Waqf (ISRA, 2015).

*The second condition* is that the Waqf property must be identified. That includes the location, size, and how to use it. *The third condition* is that the founder of Waqf (Waqif) may take the responsibility of the Waqf or appoint a person or institution as trustees (ISRA, 2015). *The fourth condition* is that the founder of Waqf (Waqif) should specify the beneficiaries such as orphans or entity such as mosques (ISRA, 2015).

### **1.4.4 Classification of Waqf Properties**

Waqf can be classified in different views, but this section will focus on two types of classification. The first classification is based on the *Waqf beneficiaries* or *Mawquf lahu*, and the second classification is based on the *Waqf property* itself or *Mawquf* (Magda Ismail A. Mohsin et al., 2016: 5-6).

#### **Classification based on the Waqf beneficiaries or Mawquf lahu**

According to *Magda Ismail A. Mohsin et al.*, there are three main types of Waqf in type of classification.

The first type is *the family endowment*, also known as *Waqf Ahli* or *Waqf Dhurri* too. This type of Waqf is recognized as a private endowment, and the benefits of that Waqf can be used upon the children, descendants, relatives of the founder of Waqf. Two main purposes for this type of Waqf, it can be used as a way of maintaining the bonds of kinship. Also, it can be recognized as a type of family social solidarity to support each member of the family when encouraging them to remain united and cooperative.

The second type of Waqf is *the ongoing charity*. This type of Waqf, known as *Waqf Khairi* or *Sadaqah Jariyah* too. It is recognized as a public endowment such as orphanages, mosques, schools, wells, gardens and so forth.

*“When a man dies, his acts come to an end, but three, recurring (ongoing) charity, or knowledge (by which people) benefit, or a pious son, who prays for him (for the deceased)”*  
[Sahih Muslim: Book 013, Number 4005]

The third type is the mixed Waqf. In this case, the Waqf revenue can be shared by both the *public charity* and the *private family endowment*.

#### **Classification based on the Waqf property or Mawquf**

According to *Magda Ismail A. Mohsin et al.*, there are several categories of Waqf in the type of classification. The first category is whether the Waqf is *movable or immovable*. An example of moveable Waqf is cattle, and immovable Waqf is schools, lands and so forth. The second category is whether the Waqf is *direct or indirect*. In this case, the direct Waqf is created by the founder for the particular purpose to be benefited by the beneficiaries directly such as hospitals. To make this Waqf sustainable and continue covering its expenses, there might be a need to invest by establishing some indirect Waqf properties such as shops or agricultural fields to support the direct Waqf. The third category is whether *sound Waqf* is known as *Waqf Sahih* when The Waqf is founded and endowed by the founder and owner of the Waqf property. The *unsound Waqf* is known as *Waqf Ghair-Sahih* when the founder of Waqf does not own the land of Waqf, but *state or domain* as an example.

#### **1.4.5 The importance of Waqf investment**

The Waqf itself is an investment. And it is similar to any other investment; it should be invested in the appropriate way to get the maximum benefits from it. It is highly recommended and needed to make it sustainable for the future generation, and not to consume its capital.

However, in the case of losing any specific *Waqf* function for any reason; it would be recommended to develop that welcome or even to replace completely its function to make it more beneficial for the people and the whole community to keep achieving its message of the *Waqf*. Otherwise, that specific *Waqf* will be useless or even frustrating to the others. Also, it might be subjected to exploitation and theft if it not developed properly. As an example in the case of the dilapidated buildings which were utilized by leasing them and collecting their revenue to finance the purpose of Waqf. The decision, in this case, will be taken either by rebuilding these real estates again or to utilize them in the same way again or defining an entirely different investment method to get the maximum benefits for the whole community. This decision should be taken by consulting the stakeholders of that Waqf which may include the founder of Waqf if he is still alive, the beneficiaries of that Waqf, and the legal custodianship over the Waqf.

The worthwhile investment of Waqf revenue leads to preserving it, so it would not be dissipated on the daily expenses or expenditures with no sustainability or eliminated by the end. There are many traditional and modern ways of investing Waqf, such as leasing the

Waqf properties or Real Estates and utilizing their revenue for the purpose of that Waqf. Another investment case is by leasing of the agricultural lands or sharecropping contract for a limited period, and to get their share of revenue (Debs, 2010: 134). However, this topic of Waqf investment will be discussed in the next chapters.

### **1.5 Sadaqat ul-Fitr or Zakat-ul-Fitr**

It is known as *Zakat-ul-Fitr* too. It is a mandatory Zakat or charity which is collected seasonally at the end of Ramadan before *Eid ul-Fitr* for every Muslim regardless of whether he or she is a slave or free, male or female, young or old who has more wealth and property than his/her basic needs to be paid to the poor (Shihata, 2004: 67). However, as mentioned before in the previous sections, the slavery system nowadays is already extinct, but there is still a legitimize rule according to the teachings of Islam. As known, Ramadan is the ninth month of the Islamic lunar calendar, and it is recognized as the month of fasting for Muslims.

Each financially-capable Muslim must pay *Zakat-ul-Fitr* on behalf of his dependents such as his wife and children when they are unable to pay.

*“Allah's Apostle enjoined the payment of one Saa' of dates or one Saa' of barley as Zakat-ul-Fitr on every Muslim slave or free, male or female, young or old, and he ordered that it be paid before the people went out to offer the Eid prayer”* [Sahih Al-Bukhari: Book 25, Number 579].

One Saa' is equivalent to 2.5 Kilograms approximately

According to the teaching of Islam; there are two pearls of wisdom behind this type of alms (Hidaya Foundation, 2016). The first wisdom is to enable the poor to enjoy the celebration of *Eid ul-Fitr* or festival of breaking of the fast. The second wisdom is to purify the fasting from any impurity, or small mistake occurred during that time.

However, some contemporary scholars permit to pay an equivalent of the weight of dates, wheat or barley as Money to the poor directly. It might be more useful for the poor, and make it much easier for collecting and distributing this charity. According to that, the equivalent Money might be different from country to country, or from year to year depending on the prices of the dates, wheat or barley.

### **1.6 Beneficence loan or “Qard Hassan”**

The Beneficence loan, known as *Qard Hassan* is the only credit allowed in Islam. It is returned with no Interest to the original value, which is made for a good cause. (Abdul-Rahman, 2010: 258). In other words, the interest on this loan is zero. When providing this kind of loan with no interest to the needy or debtor; Allah will multiply it several times over according to the following verse in the Noble Quran.

*“Who is it that would loan Allah a goodly loan so He may multiply it for him many times over? And it is Allah who withholds and grants abundance, and to Him, you will be returned”* [The Noble Quran 2:245]

## **1.7 Conclusion**

In the light of the preceding, Zakat and Waqf have been discussed and analysed. Both Zakat as an obligatory duty on Muslims and Waqf as a voluntary charity played significant roles in the Islamic communities regarding social solidarity and tackling poverty throughout history. Much legislation contained in the Noble Quran and Sunnah (Biography of the Prophet) encourages Muslims to donate to charity to get rewards from Allah. By demonstration the characteristics of Zakat and Waqf, it has been noted that supporting the poor and needy people is the priority and purpose of them. Another noted point is that the Waqf property itself is an investment, and it is recommended to manage it in the proper way to sustain for future generations.

## Chapter 2 - An Overview of Palestine

This chapter is divided into five broad sections. The first section, a general introduction and brief history of Palestine are given. To situate the context of the population and demography in the Palestinian regions is the focus of the second section. The third section is focusing on the struggles against the Israeli occupation of the Palestinian regions. The situation of the Palestinian Economy is the focus of the fourth section. And the conclusion of this chapter is the focus of the last section.

### 2.1 Introduction

According to the *Constitution of the State of Palestine* (2003: Article 1) “*State of Palestine is a sovereign, independent republic*” although the current situation in the Palestinian regions contradicts with this article, and that will be discussed in following sections. However, demonstration a brief history preferred to come out with a perception of the current situation in the Palestinian regions

At the beginning of the 20<sup>th</sup> century, the historical Palestine (i.e. *nowadays known as Israel, West Bank, and Gaza Strip*) was part of Ottoman Empire –Caliphate for nearly four centuries. A Caliphate is a such form of Islamic government led by Caliph-Sultan, and he is responsible for applying or imposing the Islamic regulations known as *Shari’a* on the nationals of the state (Ann Black et.al, 2013: 39). Part of *Shari’a* rules is the Islamic economic system

In 1917, Palestine was under the British Army occupation during World War I, and that occupation has been transformed and known later as the British mandate on Palestine in 1922 after it was recognized and confirmed by the Council of the League of Nations (Eisenman, 2015: 98). In the same year 1917; the British government issued the Balfour Declaration. This declaration had serious negative consequences for the Palestinians as it was the origins of the Arab-Israeli conflict according to Schneer (MEPC, 2010). During the British mandate era on the Palestinian regions, several peaceful protests, popular uprisings, and even armed revolutions were organized by the British army and Zionist movement in Palestinian regions. However, at the judicial and legislative level, several changes had been imposed and quoted from the Western laws by the British mandate there.

In 1948, the state of Israel was established after the first Israeli-Arab war. This war is commonly known by the Palestinians as *Nakba* or *Day of the Catastrophe* because of loss of 78% from historical Palestine. Also, as a consequence of that war, another tragedy occurred, represented by refugees who left their homelands escaping from the war with the hope to return home later. The remaining 22% of lands from the historical Palestine were later renamed as *West Bank* including *Jerusalem*, and *Gaza strips*. West Bank including Jerusalem was controlled by the Jordanian government, and later on, it was annexed to the Hashemite Kingdom of Jordan, and Jordanian laws were imposed based on that. Gaza strip was controlled by the Egyptian Army, and the Egyptian laws were imposed there, although Gaza strip was not recognized as part of Egypt during that time. Some of the Islamic regulations imposed to rule the Palestinians were based on the Egyptian and Jordanian constitution at that time. In 1967, and as a consequence of the Six-Day war between the Arabic armies from one



side and the Israeli army from the other side, the remaining lands of the historical Palestine *West Bank* and *Gaza Strip*, *Egyptian Sinai Peninsula*, and *Syrian Golan Heights* was occupied by the Israeli army. However, the resistance against the Israeli occupation in West Bank and Gaza Strip took different forms such as peaceful protests, popular uprisings known as *Intifada*, and armed revolutions.

In 1993, the Oslo I Accord, or officially known as *Declaration of Principles on Interim Self-Government Arrangements* attempted to set up a framework that would lead to the resolution of ongoing Israeli-Palestinian conflict according to Majali (1994: 243). This accord paved the way for new era at the Palestinian region called peace process, and to the Gaza-Jericho agreement between the PLO (i.e. Palestine Liberation Organization) and the Israeli government as a result. This agreement set the legitimacy of establishing the Palestinian Authority and provided kind of self-ruling to the Palestinian in West Bank and Gaza Strip. According to the Palestinians, the aim of this agreement was to establish their state in West Bank, Gaza Strip, and East Jerusalem (i.e. on 22% of the historical Palestine, before Six-Day war in 1967), and conversely to grant the security to the Israelis during such transition period. This agreement is still valid till today 2017, and the situation of the Palestinians has not changed much since signing that agreement. One of protocol in this accord is the controversial protocol known as Economic Relations protocol or *Paris Protocol* (Khatib, 2010: 118). This protocol will be discussed in the next sections. After establishing the Palestinian National Authority as a consequence of this agreement, the Palestinians started to build the governmental, legislative, judicial, educational and medical institutions in the liberated areas. In 1995, Oslo II Accord was signed up between the Palestinians and Israelis. It should be noted that part of the agreement was to classify the Palestinian territories and regions into three areas according to *Bickerton* (2009: 181).

*Area A*: Full control by Palestinian, 18.2% of West Bank.

*Area B*: Shared with Israeli control, 21.8% of West Bank

*Area C*: Full control by Israeli, 60% of West Bank including East Jerusalem

The area A is highly populated in the Palestinian regions, and setting up any development projects in the areas B and C without the Israeli approval is very difficult, especially in terms of issuing the building permits.

## **2.2 Population and Demographics**

### **2.2.1 Population**

As a consequence of several wars in Palestine regions, and due to unstable political and economic conditions there, a big number of Palestinians is in diaspora. The number of Palestinians over the world was estimated around 11.8 million at the end of 2013. They are scattered according to their current residence place, in which 4.5 million live inside Palestinian regions, 1.4 million live inside Israel, 5.3 million are scattered in all Arabic countries, and 665 thousand live in foreign countries (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 254). The following table represents both number and percentage of the Palestinians to their current residence places according to the *Palestinian Central Bureau of Statistics*.

<b>Country</b>	<b>Percent</b>	<b>Number</b>
Palestine	38,0	4,485,459
Israel	12,1	1,430,212
Arab Countries	44,3	5,225,776
Foreign Countries	5,6	665,288
<b>Total</b>	<b>100</b>	<b>11,806,735</b>

Table 2: number and percentage of Palestinians based on current residence places (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 254)

The registered Palestinian refugees in the Arab countries are scattered in Jordan, Syria, and Lebanon. While inside the Palestinian regions, there are 2,221,206 registered Palestinian refugees of which 914,192 are in West Bank and 1,307,014 in Gaza according to the *Palestinian Central Bureau of Statistics* too.

In 2015, the total fertility rate in the Palestinian regions was 4.1%. In which 3.7% was in West Bank and 4.5% was in Gaza strip (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 59). The fertility rate is pretty high, and it was recognized as one of the highest verticality rates over the world when taking into consideration the total world fertility rate was 2.42% in the same year (CIA: 2016a).

### **2.2.2 Ethnic groups, Languages and Religions**

There are two main ethnic groups in Palestine, the Arab and Jewish. Also, there are other small minorities there too. In West Bank, the percentage of Arab Palestinians and others is 83%, while the percentage of Jewish is 17%; most of them are settlers who live in the Jewish settlements in the Palestinian regions. In term of the religion, the percentage of Muslims in West Bank is between 80 – 85, Jewish 12 – 14 %, and Christian 1 – 2%. (CIA, 2016b). While in Gaza strip, almost all of inhabitants are Palestinian Arab and Muslims, and Christians are less than one percent (CIA: 2016c).

### **2.3 Israeli Occupation and Intifada**

As mentioned before in previous sections; there are two main consequences of the first Arab-Israeli war in 1948; one of them was establishing the state of Israel on 78% of the historical Palestine, and the second consequence was the tragedy problem of the Palestinian refugees. A The number of Palestinian refugees were between 800,000 and 900,000 in 1948 according to *Waldman* (2015: 13). Most of them were forced to leave their properties, homes, lands, and workplaces. In response to that war, several Palestinian armed groups were established. These armed groups had participated in the following Arab-Israeli wars such as War of Attrition (i.e. 1967 – 1970), Battle of Karamah (i.e. 1968), and so forth.

In 1987, the first Palestinian *Intifada* broke out as a Palestinian uprising against the Israeli occupation of the West Bank and Gaza Strip (Elizabeth King, 2009: 1). It ended up officially in 1993 as a consequence of Oslo I Accord.

In 2000, the second Palestinian *Intifada*, known as *Al-Aqsa Intifada* broke out as a result of several reasons such as the steady deterioration of the Palestinian economic situation, new Jewish settlements and expanding the old ones, and with the failure of the conference at Camp

David. However, the direct reason for this second Intifada was the provocative visit of *Ariel Sharon*, the leader of the right-wing Likud party to Al-Aqsa mosque on 28 September 2000 Camp (Naqib, 2002: 16).

In 2005, the Israeli army completed the withdrawal from Gaza Strip as a consequence of Israeli disengagement from Gaza plan (Al-Haq Organisation, 2006: 1).

In 2006, the second election for Palestine Legislative Council (PLC) took place. The two main dominant Palestinian political parties *Fatah* and *Hamas* contributed in that election. As a result of that; *Hamas* swept that election, and formed a new Palestinian government (Wilson, 2006) due to holding the highest number of seats at the PLC. But, that government formed by *Hamas* was boycotted by the global powers such as the USA.

In 2007, the *Fatah-Hamas* conflict, or the Palestinian Civil War broke out, and as a result of that; *Fatah* (i.e. internationally recognized government) controlled the Palestinian government in West Bank, while *Hamas* (i.e. internationally unrecognized government) controlled the Palestinian government in Gaza Strip. Following that, the blockade of the Gaza Strip has been imposed by Israel and Egypt, leading them to seal their border crossings with Gaza Strip. Three more wars occurred in Gaza Strip between the Palestinian military groups and the Israeli army in (i.e. 2008-2009, 2012, and 2014). These wars left vast destruction and a big number of Palestinian casualties. However, the security situation in West Bank is not ideal; it is closely linked to the tensions between Palestinians and Jewish settlers. It is mainly because of expanding the Jewish settlements in West Bank by grabbing the lands of Palestinians.

## **2.4 Situation of the Palestinian Economy**

The Palestinian economy cannot be assessed without taking into consideration the context of Israeli occupation, economic dependency on Israel, and the influence of donors on the trade policy framework (United Nations, 2012: 17). The Israeli occupation controls all the borders crossing including the movement of people and goods externally. Also, the Palestinians are unable to control all of their lands in West Bank because of the Israeli occupation as mentioned before in the previous sections, or even to exploit their natural resources. The Palestinian economic is highly dependent on the Israeli economy for many reasons. Israel is the primary trading partner for the Palestinians. Furthermore, Israel and the Jewish settlements in West Bank and Jerusalem are considered big labor markets for the Palestinian workers, although the number of Palestinian workers inside Israel declined from 135,000 in 1999 to 75,000 in 2008 because of the security situation after the second Intifada in 2000 (United Nations, 2012: 6).

The influence of donors on the trade policy framework includes the exemptions from customs duties for the exported Palestinian products to foreign countries, and to the imported goods from the foreign countries to Palestinian territories. Moreover, it includes the influence of the foreign aid assistance to the Palestinian economy, budget support, and projects support, whereas the total aid assistance for West Bank and Gaza strip was US\$2.4 billion in 2013. Part of that aid which was US\$793 million has been used for the humanitarian assistance (GHA, 2015). However, such report from World Bank gave a dark image about the declining

of the Palestinian economy by mentioning that the average yearly economic growth exceeded 8% between 2007 and 2011, but it declined to 1.9% in 2013, and it reached minus 1% for the first quarter of 2014 according to *World Bank* (2014). Additionally, as part of the Oslo Accords; the protocol of economic relations, known as the Paris Protocol allows “*the Israelis to collect the import taxes on the goods and then to transfer them to the Palestinian Authority and Palestinian trade with other countries would continue to be handled through Israeli sea and airports, or through border crossings between the Palestinian Authority and Jordan and Egypt, which are also controlled by Israel*” according to *B'Tselem* (2012). Unfortunately, in many cases, Israel imposes tax sanction on the Palestinian as a punishment or retaliation, as an example when the Palestinian Authority signed up to join international treaties against the Israeli desire (BBC, 2014).

#### **2.4.1 The sectoral structure of the Palestinian economy**

Several economic sectors are operating in the Palestinian economy. Some of them are more significant than others based on their sharing in the local economy, and percentage of labor forces.

##### **The agriculture sector**

It is the first economic sector. Most of the Palestinian regions are agricultural lands due to the appropriate conditions there for plantation such as availability of water, mild weather, soil fertility and so forth. The agricultural products are concentrated on the field crops, vegetables, and fruit. Around 1,854 km<sup>2</sup> of the lands are under cultivation (PIPA, 2010: 26). However, this sector is a very dynamic economic sector in the Palestinian regions, and it absorbs a big number of the labor force. Also, it is highly connected with food security when taking into account 33% of all Palestinians have been considered to be food-insecure in 2013. Specifically, 19% in the West Bank, and 57% in the Gaza Strip (FAO, 2015: 38).

##### **The trade sector**

It is the second economic sector. The trade activities include both external and internal trade. The internal trade businesses are almost operated in small-scale activities, much like Palestinian commercial enterprises in general, and the majority of them are running with less than five employees (PIPA, 2010: 36). For the external trade, there are many free trade agreements between the Palestinian Authority and other countries such as the European Union, USA, Canada, Turkey and some Arab countries. However, the trade sector has challenges and impediments, and it would not be reformed unless ending up the Israeli hegemony on the Palestinian economy. As mentioned before in the previous section; Israel is the primary trading partner for the Palestinians. In 2008, 86.6% of the Palestinian imports came from Israel, and 89.4% of the Palestinian exports went to Israel (PIPA, 2010: 38).

##### **The information and communication technology sector**

It is the third economic sector in the Palestinian regions, and it is a promising sector in the Palestinian economy. This sector includes several activities such as providing services for landline telephones, mobile telephones, the Internet, software technologies, and so forth. It is a vital sector in the Palestinian economic by providing the facilities and communication

services for other economic sectors such as the banking system, e-commerce, stock markets, and so forth.

### **The tourism sector**

It is the fourth economic sector. In fact, Palestine has a lot of historical, religious places which are attractive for tourism. This sector provides several residency services such as the hotels, restaurants, renting and leasing cars, resorts and so forth. It highly connected with other economic sectors such as trade and agricultural sectors. The Dead Sea is another target for tourist who looks for the Wellness tourism.

### **The manufacturing sector**

It is the fifth economic sector. This sector is suffering from deteriorating conditions after the Palestinian market was opened up to import from East Asian countries, especially the clothing and shoes (PIPA, 2010: 45). Despite this economic sector is still promising in the Palestinian regions when setting up the opportunities for free competition in the field of high-quality products. It can be improved when setting up such protectionism policies to support the local products, side by side with investment facilitations, however, this sector is a positively proportional to the *trade* sector side by side with granting such investment facilitations to the investors and the financial institutions by the Palestinian government. Also, the ease of import restrictions on the modern technologies by the Israeli occupation authority will help to improve its progress. As an example, Israel has restricted the Palestinian mobile communications sector for years, and it banned Palestinian providers from offering the 3G internet service for security concern (Al Jazeera, 2016a).

### **The construction sector**

It is the sixth economic sector. It is a vital and one of the most effective economic sectors in the Palestinian regions, and it is highly interconnected with the Palestinian economy status. It consists of the buildings and infrastructures. Of course, better infrastructure will affect positively with the other Palestinian economic sectors to make them more attractive for investments. The building projects include the housings, commercial complexes, commercial property, shopping malls, and so forth.

The total investment in this sector is more than one billion US dollar every year, and the private investment represents nearly 90% from the total investment in the construction sector, and it employs around 11.8% of the labor force (PIPA, 2010: 51). The investment opportunities in this sector are very promising and are still growing. As an example, the donors promised to rebuild the houses which were destroyed in Gaza Strip during the war between the Palestinian military groups and the Israeli army in (i.e. 2008-2009, 2012, and 2014) as these wars left a huge destruction there as mentioned before in the previous sections. The investment restrictions in Area C in West Bank represents one of the impediments for this as this area represents around 60% from West Bank, and it is fully controlled by the Israeli occupation authority based on the Oslo Accords as mentioned before in the previous sections. The unlicensed houses demolition policy which is strictly applied by the Israeli army against the Palestinians represents other obstacle facing that sector.

### **The health-care sector**

It is the seventh economic sector. The healthcare services include the hospitals and health-care centers, medical laboratories, pharmacies, and so forth. The access to the health-care has to be one of the basic rights for everyone in the community. Thus, the investment in this sector should not be treated by desire or profit only. It is an essential factor to get a healthy community including the labor forces. In Palestinian regions, the health-care services are provided by four sectors. The largest provider sector is the governmental sector, and it represents 41% of the total provided health-care services. The second provider sector are the private institutions, and they provide 28% of total provided health-care services. The third provider sector is the civil society organizations institutions and it represents 24% of the total provided health-care services. And last provider sector is the health-care services provided by UNRWA, and it represents 6.5% of the total provided health-care services (PIPA, 2010: 52). This sector is highly interconnected with the financial sector which will be mentioned in the next pages talking about the health insurance.

### **The education sector**

It is the eighth economic sector. It includes pre-school, primary, secondary education and the higher education which offers Diplomas, Bachelors, Masters, and PhDs degrees. It is an important economic sector to provide the educated and qualified skilled workers to the labor market. The literacy in Palestine is around 96.4% (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 102). It is a high number comparing to other countries. The Pre-school education is not compulsory in Palestine. Even though, it is desirable by parents to send their children to kindergarten and nurseries to get basic skills and knowledge. Also, the nurseries and kindergartens are recognized as appropriate and safe places where to keep the little children when the parents and especially the mothers during the working time. The number of the nurseries and kindergartens is increasing, and these are mainly managed by the private sector and charitable organizations (UNESCO-IBE, 2011: 7). It is a promising sector for investment, in particular with the increasing number of workers women. The primary and secondary schools are another type of schooling system in the Palestinian regions. The primary school is compulsory for ten grades, and the admission for the first class starts at the age of six years. The secondary school is for an additional two years. In 2014/2015, there were 2856 schools based on the following supervision authority (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 93). The *governmental schools* through *Ministry of Education and Higher Education* managed 2095 schools or 73.35% from the total number of schools in the Palestinian regions. The *private schools* managed 414 schools or 14.43% from the total number of schools running in the Palestinian regions. Some parents desire to send their children to private schools in Palestine for several reasons such as boasting by reflecting the social classes. Also, another reason is to get an education according to specific religious teachings and to get better educational system comparing with the public schools. UNRWA (i.e. *United Nations Relief and Works Agency*) provides education services to the young Palestinian refugees, and it managed 349 schools or 12.22% of the total number of schools in 2008.

### **The financial sector**

It is the ninth economic sector. It is a vital sector in the Palestinian economy. It regulates the monetary system and all financial markets. It includes the monetary authority, general banks, and non-banking financial institutions such as the Palestinian Capital Market Authority (PIPA, 2010: 55). However, the Palestinians do not have their own currency, but they use several currencies such as the New Israeli Shekel (NIS) which is used for daily exchanges in Palestine. The USD dollar and Jordanian dinar are both commonly used for saving capital, some commercial exchanges and investments (PIPA, 2010: 56). Also, there are several private companies who pay the salaries for their employees in USD dollar or Jordanian dinar. There are 19 banks with 209 branches are operating in Palestine, nine of them are local banks, ten are foreign banks, and two of them are recognized as Islamic banks (PIPA, 2010: 55). The Islamic banks avoid accepting or giving the interest which means the fees on the loan or mortgage. Rather than, they use Islamic acceptance way to promote an interest-free which is called *Murabaha*. It is a particular kind of sale, compliant with the Islamic teaching, where the seller expressly identifies the cost he has incurred for the commodities for sale and sells it to another person by adding some profit which is known to the buyer according to *Kettel* (2011: 37). The Microfinance provides small loans and microfinance market for the small-scale businesses and projects. In Palestine, all microfinance institutions work under named *Sharakeh*. According to *MicroWorld* (2013), there are two categories of members in *Sharakeh*, Microfinance providers (MFP), and it has nine active members provide microfinance services. The second category is the microfinance institutions (MFI), and it has four associate members to make provision for microfinance services. The incurrence is another financial subsector. It provides several types of insurance such as life insurance, health insurance, and vehicle insurance. Also, the Palestine Securities Exchange known as Al-Quds index is a stock exchange, and it provides an environment for trading.

#### **2.4.2 The unemployment rate in Palestine**

In 2014, the unemployment rate was 26.9% (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 137). The higher unemployment rate is shown in Gaza Strip compared to West Bank. And this may explain why the poverty rate in Gaza Strip is higher than West Bank as mentioned before in the previous sections. Due to the lack of social security system in the Palestinian regions; being unemployed means no income to have. Some of Palestinians with high educational level fall into the trap of unemployment, or they may find some jobs outside their competence to be able to fill their needs. So, being unemployed is not limited to the people with less educational level. Lack of an integrated strategy for the needs of the labor market by the Palestinian authorities, civil society and employers would exacerbate the unemployment problem. This may occur when a large number of graduate students finish school without absorption in the labor market due to lack of need for their qualifications or lack of vacancies in the labor market. However, the high rate of unemployment at the Palestinian regions has other negative effects beyond the economic aspect, as an example the social problems when some Palestinians at the age of marriage have no established income or even no income at all with a conservative society like the Palestinian society. Turning to drug abuse and trafficking is another potential problem when taking into consideration that roughly 22,000 addicts and almost three times as many users in the West Bank alone according to *A'loosh* (BEITER, 2016). Of course, it is not a generalization point view for all addicts.

Conducting criminal activities such as theft and armed robbery is another social and security problem because of the need for money.

#### **2.4.2 The investment situation in Palestine**

Establishing new businesses or expanding the existing ones is depending on couple of incentives such as investment facilitation which has to be provided by government and banks. Also, the stable political and security situation is an important factor for attracting the investors. However, in 2014, the noticeable thing at the statics yearbook of Palestine was, the Palestinians who live in the Palestinian regions invested outside Palestine more than what they invested inside Palestine (PALESTINIAN CENTRAL BUREAU OF STATISTICS, 2015: 229). I think the reason probably was because of the unstable political and security situation in the Palestinian regions. The *Palestinian Law* provides several incentives and guarantees to the investor who is operating in the Palestinian regions. One of them is that no investor will be discriminated against on any basis whatsoever in the application of the incentives provided for under the Palestinian Law. But the Palestinian government Authority may grant preferential treatment to investors on the basis of nationality under bilateral or multilateral trade investment agreement. The Palestinian National Authority prohibits the nationalization of any investment in Palestine and may not expropriate any investment except by operation of the law according to *the Law on the Encouragement of Investment in Palestine, Law No. (1) of the year 1998* (IBP Inc, 2015: 270). In furtherance of free market principles, the Palestinian National Authority guarantees to all investors free transfer of all financial resources out of Palestine, including capital, profits, dividends, capital gains, wages and salaries, and so forth . The project's fixed assets are exempted from taxes and customs under the condition the assets are brought in for the project. Also, the imported spare parts to the project are exempted from taxes and customs, provided that its value does not increase above 15% from the value of fixed assets that were brought in for the project. Granting an income tax exemption for five years to the licensed projects by the Palestinian National Authority based on the amount of investment. Granting an income tax exemption period for the licensed projects by the Palestinian National Authority may be increased for two additional years if the local input in equipment, machines, and fixtures exceeds 60%. Also, it may give preferential treatment, special guarantees or incentives to the national investor.

However, attracting the investment has to be one of the priorities for the Palestinian government to set up a sustainable economic development growth.

#### **2.4.3 The corruption situation in Palestine**

According to the survey managed by the *Palestinian Center for Policy and Survey* (2014) in 2014, 81% of the Palestinians who lived in the Palestinian regions believed that there is some kind of corruptions in the Palestinian. These results correspond to a large extent with the fact that Palestine occupied the rank 107<sup>th</sup> in the Corruption Perception Index (CPI) in 2005. (Transparency International, 2005). The corruption is not only spreading to the public sector but also it exists at some private sector and NGOs in the Palestinian regions too.

According to *Pancevski* (2013), the European Union transferred more than £1.95 billion, around EURO 2.7 billion between 2008 and 2012, and some of that financial support have



been misspent, squandered or lost to corruption. Increasing level of corruption may lead to investors' flight, which will cause negative effects on the economic development growth.

## **2.5 Conclusion**

In light of the preceding, a brief history of Palestine has been given since the beginning of the 20<sup>th</sup> century. With highlighting on particular historical stages; this overview is an essential to give a better understanding of the impediments to the local and foreign investment in an unstable or risky area because of the struggles with the Israeli occupation of the Palestinian regions.

Both the rates of poverty and unemployment in the Palestinian regions are high, and they are surrounded by different political and economic problems

Also, the situation of the Palestinian economy including its sectoral structure has been discussed and analyzed. As situated, there are several weakness and strength points in the Palestinian economy for investment. However, it is highly connected with the Israeli economy and bound by Oslo peace accords and their economic protocol.

Removal of the Israeli restrictions is an important factor to apply the required reforms on the Palestinian economy. Despite all, the investment in the Palestinian territories is still promising and ambitious.

## **Chapter 3 – The Zakat and Waqf institutions in Palestine**

This chapter is divided into five broad sections. The *first section*, a general introduction is given. To situate the context of the current situation and institutions of Zakat and Waqf in Palestine with demonstration some practical examples for Zakat and Waqf Committees operating in the Palestinian regions is the focus of the *second section*. The *third section* will focus on management and integrate of the collection, investment and distribution of Zakat and Waqf, including the effective fundraising and distribution of Zakat and Waqf and revenue with providing several practical ways for investing Zakat and Waqf funds. *The fourth section* is listing several challenges and impediments that effect on the collection, management, and distribution of Zakat and Waqf funds and revenues. And the conclusion of this chapter is the focus of the *last section*.

### **3.1 Introduction**

As it will be discussed later in this chapter, there are several Zakat, and Waqf institutions working in the Palestinian regions that play significant roles in tackling poverty by supporting the poor people economically, and establishing several development projects for the local community in general. These institutions are operating regionally on the level of their city or town with a lack of collaboration between these establishments which prevents setting up efficient global strategies for sustainable development. Even though, with the establishment the Palestinian Zakat Fund as an official comprehensive framework for the Zakat institutions, but several challenges still effect on the management of Zakat and Waqf revenues, not only the security situation in the Palestinian regions, but other reasons related to legislative issues, or misuse or misappropriation their revenues. It requires addressing these impediments by collaboration between all slices of the Palestinian community and their government. However, a couple of ways will be discussed in this chapter to improve the management of Zakat and Waqf revenues in all stages including a collection of the funds, investment methods, and equitable distribution of the revenues.

### **3.2 Institutions**

Several licensed Zakat institutions at the Palestinian regions have been established by the Islamic Scientific Commission in Jerusalem after the Israeli occupation in 1967. These institutions offer the Orphan and low-income family sponsorship programs such as building schools, hospitals, and orphanages, in addition to providing the humanitarian aid in case of any emergency situation such as natural disasters (Ibrahim et al., 2008: 105).

Before the year 2007, it was noted that there was no comprehensive framework for the Zakat institutions operating in the Palestinian regions. These institutions were scattered with the lack of collaboration between them. After that year, the Palestinian Zakat Fund was established as an official comprehensive framework for the Zakat institutions. According to *Ibrahim et al.* (2008: 105) the Palestinian Zakat Fund at the Ministry of Waqfs and Religious Affair in Palestine has listed in that year eighty-one Zakat committees operating in the Palestinian territories, West Bank and Gaza Strips.

Nevertheless, there are other institutions still operating in the Palestinian regions not under the supervision of the Palestinian Zakat Fund at the Ministry of Waqfs and Religious Affair such as the *Palestinian Zakat institution* located in Gaza Strip, and *Zakat Al-Quds*

*Committee* located in Jerusalem and Ramallah cities. This particular Zakat Committee is operating under the supervision of the Ministry of Awqaf and Islamic Affairs and the holy sites of Jordan (Zakat Al-Quds Committee, 2016).

### **The Nablus Zakat Committee**

In 1977, the first Zakat Committee has been established in West Bank and Gaza Strips after the Israeli occupation in 1967. It is recognized as the most efficient Zakat Committee in the Palestinian regions (Khitam Amawi, 2010: 140).

According to *Ibrahim*, the annual revenue for this Zakat committee is about two million JD (i.e. Jordanian Dinar) around two million eight hundred and one USD (i.e. US Dollar), with seventy percent of internal resource in Palestine and thirty percent from external resources mainly from Jordan and other Arab states. They spend this revenue on Orphanages with three thousand orphans, fully supporting three thousand low-income families, helping poor students from the primary levels of education to University by establishing dedicated fund for that purpose. Also, this Zakat Committee established several sustainable development projects such as *dairy producer Al-Safa*. Not only that, but it provides several development services too according to *Royle* (2016: 39) “*a market for cattle farmers, local employment, the quantity of free milk and dairy products to the poor people, receives payment contract with agencies to distribute milk and dairy products, and markets some dairy products to the retail consumer sector*”. This project serves more than a slice of society; it starts from the farmers who provide feed for the cattle, then families who raise cattle, then employees who work in the factory, then plastic and cardboard packaging factories, then merchants who distribute the final consumer product, and the finally the consumers who can buy these dairy products with reasonable price according to *Khitam Amawi*. Thus, how such an efficient project like this works and supports to energize the local economy. Other development projects were done by this Zakat committee include tailoring factory, charity health clinic, charity schools for orphans, two buildings used as shopping centers. In addition to, many individual qualification projects such as beekeeping, sheep breeding, and so forth.

### **The Jenin Zakat Committee**

This Zakat Committee is located in the northern city in Palestine called *Jenin*. The committee has been established in 1985, years before establishing the Palestinian Authority. According to their booklet, the following are some of their goals behind creating that Zakat Committee “*Support the development of community through the improvement of education, health, social and economic situations. Relief the orphan, poor, and the needy people materially and morally. Develop several economic projects to provide jobs for some the unemployed. Spread religious, scientific and cultural awareness in the local community*” (Khitam Amawi, 2010: 143). The resources of Zakat, alms, and donations for this Zakat Committee come from inside and outside Palestine, and these funds are distributed among the poor people and orphans. However, all segments of society from merchants, workers and manufacturers will be benefited directly and indirectly according to *Khitam Amawi*. As kind of investment, the officials of the Zakat Committee bought *Earth digger* and distributed its revenue among the poor and needy people. Establishing a hospital in the city with free of charge for the poor, but with some fees for other people, is another kind of sustainable

economic development project. Moreover, establishing a private school in the city with free of charge of poor students, especially the orphans, also with some fees for the other students. These are only some listed projects, but there are still some more and more projects.

### **Zakat Al-Quds Committee**

As mentioned before in this chapter, this Zakat Committee is operating under the supervision of the Ministry of Awqaf and Islamic Affairs and the holy sites of Jordan. It has been established in 1988, and the headquarters office is located inside the Al-Aqsa Mosque in Jerusalem. Their message by establishing that Zakat Committee is to provide service for Zakat and the Palestinian charity work, especially in Jerusalem, and to serve Al-Aqsa Mosque. Also, developing effective financial resources for collection Zakat and other charities, and distributing that among the deserved recipients with the highest level of efficiency (Zakat Al-Quds Committee, 2016). They have several projects, some of them are seasonal such as *school bag project* at the beginning of school year, *distribution of the olive oil* project among the poor people at the Olive harvest season, and *Fast-Breaking project* during the month of Ramadan. Other projects are classified as diverse projects include drilling water projects, restoration of mosques, Humanitarian Aid, and emergency relief projects, and the bails orphans' project.

### **Department of Islamic Awqaf (Endowments) in Jerusalem**

This particular Waqf Foundation operates under the supervision of the Ministry of Awqaf, Islamic Affairs and Holy Places in Jordan based on the peace accord between Jordanian-Israeli peace treaty in *Wadi Araba* in 1994, Jordan insisted on including a paragraph stipulating that it would take care of the holy sites in Jerusalem. This provoked a Palestinian reservation, which Jordan responded with its willingness to transfer the Jordanian guardianship to the Palestinian Authority, when the Palestinian and Israeli sides reach a final agreement (Al Jazeera, 2012a). However, the Palestinian reservation has been changed in 2013 after signing an agreement between Jordan's King Abdulla II and Palestinian President Mahmoud Abbas. This agreement grants Jordan guardianship rights over Jerusalem (MEMO, 2015). Waqf in Jerusalem includes the Muslim holy sites such as Al-Aqsa mosque, the Islamic Museum in Jerusalem, properties, lands, orphanages, and religious schools. *Takiyat Khaski Sulat* is an example of old Waqf still operate till today for six centuries by serving vegetables to hundreds of people every day, and meat to about thousand people a day during the month of Ramadan (Benthall et al, 2003: 30). It was established by *Roxelana* (i.e. the wife of Othman Sultan Suleiman).

The income resources for this particular Waqf Foundation include the salaries of Waqf employees in Jerusalem which have been paid by the Jordanian government (Berger et al., 2002: 182). Another source is collecting revenues by renting Waqf properties, and receiving public donations in general. An important component of Waqf income is charging entrance fees from non-Muslim visitors to Al-Aqsa mosque and Dome of the Rock (Reiter, 2008: 108). In the period 17-18 December 2014, an international forum on the Empowerment of Awqaf properties in Jerusalem has been held in Jordan, and there was a promise for "*upgrading of Waqf projects in Jerusalem to the level of development and investment projects enabled to*

*cover the real needs for the community of Jerusalem, and enhance their steadfastness”* (JANAPRO, 2014).

However, the Waqf employees are often subjected to attacks and harassment by the Israeli occupation including the arrestment, expulsion, and physical assault (Al Jazeera, 2016b). Moreover, some properties of Islamic Waqf in Jerusalem have been confiscated by the Israeli occupation too such as the Mahkama building (i.e. al-Madrassa al-Tankiziyya) according to *Reiter* (2008:108).

### **3.3 Management of collection, investment, and distribution for Zakat and Waqf**

As stated in the previous chapters, many of the modern state’s roles in providing public services such as education, health-care, and social security were funded mainly by Zakat and Waqf revenue. Therefore, it will be highly appreciated when it helps to reduce the burden on the public or government budget as long as it does not affect at the public peace of the state without violating the laws and the Constitution in Palestine. Being acceptable and supported by the civil community and the Palestinian government is an essential requirement to activate Zakat and Waqf in tackling poverty in Palestine. The efficient integration between the three sides of triangle collection, management and distribution of funds and revenue is the key point for active development. One of the successful integration results between them is acting as an incentive for the needy and poor to become economically productive recipients if the fund is channeled in sustainable form and improve their living standard (Johari et.al, 2014).

The aim of this thesis is not calling to establish any outlaw institution or system such as *parallel state, parallel structure in the state, deep state* or even *state within a state*, but to assist both the government and civil society as mentioned before in the previous sections to alleviate poverty among the people in Palestine directly and indirect ways by providing direct financial assistance to the needy people and students, creating jobs for unemployed, and so forth. Improving income inequality is another indirect methods with the help of Zakat distribution according to *Johari*. In 2009, Palestine has taken the place 96<sup>th</sup> in GINI Index which measures the income inequalities with 34.5 points (CIA, 2017).

Unlike the other development projects, which starts typically with defining the problem and ends with finding donor(s) for funding the project(s) and other resources to resolve that problem; the projects based on Zakat revenue has such fixed financial source because Zakat is an obligatory religious duty on Muslim who has *Nisab* as stated before in this thesis. While, the Waqf based projects can be treated as any other sustainable development projects.

Management of Zakat and Waqf is not and should not be treated as just collection and distribution that collected fund only, but it includes how can make that fund sustained for future generations, and how to grow that fund up by investment to maximize their profits.

However, not going to institutionalize Zakat prevents thinking about large projects that benefit and help the poor continuously according to *Ir. Dr. Muhamad Fuad Abdullah* (Al Jazeera, 2012b).

### **3.3.1 Effective fundraising for Zakat and Waqf**

Zakat and Waqf are considered ones of doing good deeds to get rewards from Allah according to the teaching of Islam as stated before in this thesis. In this section, some practical ways will be proposed to increase sources of Zakat and Waqf. Firstly, Zakat and Waqf have to be treated as taxable income deduction or charitable contribution deductions by the government. This mechanism of charitable contribution deduction to all taxpayers would encourage charitable giving at all levels and democratize philanthropic support (United States, 1980: 135). To keep track paying these alms; the charities or collectors of Zakat and Waqf officials have to be itemized, licensed and monitored by the Palestinian authorities. It includes providing all needed facilities to these institutions to success. The commitment to transparency, integrity, and honesty has to be the essential qualities for these Zakat and Waqf institutions. Also, these institutions have to be under the supervision of officials and experts who are trustworthy and socially acceptable.

Salary deduction scheme for Zakat contribution by the state is another way to collect and manage of Zakat. It can be done automatically every month by cash collection system to the particular certified Zakat committee. The Palestinian people prefer to pay the alms and Zakat to such Zakat committee directly as long as these are independent and far from any interference by government. Being independent of those committees provides trust between payers and recipients of Zakat (Khitam Amawi, 2010: 145).

However, as mentioned before in previous sections, there are some responsibilities of the rich people toward the poor people as kind of social solidarity, and it is needed to organize public awareness campaigns to urge rich peoples to do more for charities. And on the other hand, Zakat, and Waqf institutions have to define precisely their projects, beneficiaries and expected benefits out of these projects. These public awareness campaigns may use some traditional and modern technologies and places to educate the people about the importance of these alms as social solidarity such as lessons in mosques, social clubs, advertisements on radio and TV, social media, and so forth. These advertisements have to be sufficient to draw in donors. In the era of the information technology revolution, using new technologies by developing and designing websites is needed, and it has to include the basics information about the Zakat and Waqf institutions, donation information how they can easily donate, and so forth (Bray, 2016: 373).

Let get involved the people including the beneficiaries of the planned projects and their priorities. It makes the procedures more democratized as mentioned in this section.

### **3.3.2 Investment of Zakat and Waqf**

Management of Zakat should not be restricted by taking the funds from rich people and give it to poor people through mediators only, but it should include how to make that fund more efficient in terms of maximizing its capital by investment, and rehabilitating poor people to make them productive, so to achieve sustainable development and tackling poverty. However, the investment of Zakat funds by its beneficiaries after reaching them is not a problem. But there is something wrong with the investment of Zakat funds by those who

collect it before distribute (Benzouai, 2015). Therefore, investment of Zakat is very restricted unlike investment of Waqf as mentioned before in previous sections.

### **Waqf-based Islamic Micro investment**

Waqf itself is investment, and it has more flexible in investing its funds, unlike the restrictions of Zakat regarding its recipients and priorities as mentioned before in previous sections. There is a need to set up a possible integration between Waqf and Microfinance by considering Waqf as a *funding agency* and the microfinance as an *implementing agency* according to *Sohel Ranaa et al.* (2016) to support and to fund the micro entrepreneurs. It will give kind of safety net to the microfinance institutions. One of the characteristics of this type of microfinance is being without interest. Good collaboration with the local microfinance institutions operating in the Palestinian regions is recommended and establishing new microfinance institutions as needed to outreach to the maximum number of the poor people.

### **Zakat as an Islamic Microfinance investment**

In the beginning, in the Islamic finance, there is no interest can be charged. (Peng, 2013: 170). It includes all Islamic finance structures such as *Islamic Bonds, borrowing money*, and so forth. However, as the poor and needy people are recipients of Zakat, then some productive from those recipients of Zakat can use some part of that fund in small-scale investment which will help them to improve their economic situation and becoming Zakat payer instead of being recipient. This form of the Zakat distribution practiced by Zakat institutions is classified as business capital given to productive Zakat recipients (Ibrahim et.al, 2014). According to Ibrahim, *Microfinance is the practice of making loans to poor people to help them rise from poverty through entrepreneurship*. Unlike any other types of commercial loans, there is no obligation to return the capital, because those recipients of Zakat became the owners of that capital. Therefore, those people will be preserved from poverty if their projects got succeeded. Another way of Microfinance investment is by establishing sustainable businesses for the unemployed poor or needy people, and they will own these businesses. Opening jobs and getting a stable source of income are two main benefits for this type of Microfinance investment. These firms must be permissible according to the teaching of Islam.

### **Zakat to debtors will support investment**

As stated before in the previous section; debtors are eligible to receive Zakat even if they have not yet become poor and needy people, but merely they are unable to pay off their loans. However, repayment of their loans preserved them from falling into poverty. But let's look at this point from a different angle, by using Zakat as collateral to the debt will encourage investment, and it will reduce the fear of failure and the inability to repay the loan. And to repay the loan, it must be taken from a permissible source. As an example, the loan with interest is not eligible because it is forbidden, or if the loan was spent in a wrong manner (Wahid Khorasani et.al, 2014: 305).

### **The impact on Zakat investment**

In some cases, when there are some resources untapped in the production processes such the cash, Zakat will decrease that money each year. And in a favor to avoid paying the amount of Zakat, Investment of that money will be the solution to obtain a return on it *according to*

*Benzouai*. Although this way might reduce the Zakat funds in a short-term period, it will have many positive implications on the economic in general, especially at reducing a number of unemployed and therefore improving the economic situation.

### **Investment of Zakat and Waqf in educational projects**

As mentioned in the previous section, there are many schools and poor students in Palestine who are benefited from the revenue of Zakat and Waqf. It is permitted by Islamic scholars to pay Zakat to the researcher or student who does not work or does not have enough income *according to Benzouai*. The investment in education is one of the most fundamental pillars for people and states to join the scientific and humanitarian development. Since the Noble Quran is arguing for science and education.

*“Recite in the name of your Lord who created [1] Created man from a clinging substance [2], Recite, Recite, and your Lord is the most Generous –[3], Who taught by the pen –[4], Taught man that which he knew not [5]”* [The Noble Quran 96: 1-5]

The investment in science should include such investment in scientific researches which will be utilized by the people such as funding the research in the medical fields to develop efficient methods for treating the patients. Supporting existing and new scientific disciplines in the University and higher education to keep up with the global scientific development are another ways of educational investment. It is part of the movement of human progress; there is something new every day. The support could be by sponsoring some of these programs in the existing higher education institutions, establishing specialist higher education institutions, or contracting with qualified teachers and lecturers. Vocational education has to be part of that support to prepare adequate manual and technician workers. The community needs for all types of employees. Supporting students economically, not only who are studying inside Palestine, but it should include the students who are studying abroad. So, they will work to transfer useful knowledge and science back home. Economically, it can be done through establishing scholarships fund, and specify the needed fields of study in the collaboration with the ministry of education and higher education, the ministry of labor, and private sector of employment. Without a doubt, human wealth is the safest investment, and there are several experiences and historical events prove that.

### **Another traditional and modern ways for Waqf investment**

Traditional ways: it includes renting real estates and collecting their revenues. It is a common way for investing Waqf in the Palestinian regions because it is relatively safe with less risk.

Modern ways: the stock market is one of the modern forms of investment. The important condition here is that the product of the company where to invest has to be legal and harmonious with *Shari'a*. It is an essential condition. Otherwise, it will be prohibited. Another point is that the stock market requires some advanced experience to find the appropriate and safe company where to invest.



### **3.3.3 Equitable distribution of Zakat and Waqf revenues**

As mentioned in this section, the social solidarity is the essential purpose of Zakat and Waqf. Distributing Zakat to its recipients to fulfill the necessary needs has to be prioritized before investing these funds. The equitable distribution means to give the revenue of Zakat and Waqf to the right beneficiaries without favoritism or discrimination other than priorities based on the urgent need of the recipients, and the collaboration with the local community, Ministry of Social Affairs and NGOs is required to develop a list the real recipients including their economic and social situation through filling out forms and field examination. In the case of emergencies such as wars or natural disasters; then the humanitarian relief should be prioritized.

However, by thinking deeply and broadly; the distribution of the fiat money directly to the recipients is not always the most efficient way to assist them financially, especially if it is not implemented through a well thought out strategy. As an example, to save some money; Zakat or Waqf institutions may request for tenders to purchase food items or any other supplies at a good price and then to distribute them to the poor people.

Another point, the collaboration between Zakat and Waqf institutions is an essential for the local sustainable development. In this case, the institution of indirect Waqf may provide all or most of the Zakat organization need before distributing it to their recipients. It will be simply to kill two birds with one stone.

Another indirect way of distribution these revenues is by establishing beneficial projects for the community such as hospitals, schools, residential complexes and cooperatives to be utilized by the maximum number of poor people is such good method rather than thinking narrowly.

### **3.4 The challenges and impediments that effect on the collection and distribution of Zakat and Waqf revenues**

As mentioned before in the previous sections; Zakat and Waqf are great concepts according to the teachings of Islam. However, practicing or implementing the theories may collide with the reality. Understanding these challenges and impediments will help to handle Zakat and Waqf revenues in the best appropriate ways.

#### **Zakat as a purely religious concept did not go beyond its economic dimension**

It is one of the most important challenges facing the development process of investing Zakat funds according to several experts in the Islamic economy (Al Jazeera, 2012b). The fear of losing its religious dimension if it became managed as investment projects is one of these challenges. Also, the fact that these investments projects are not operating without risks is doubling and increasing that fear.

#### **Dual taxation system at the same state**

Palestine as any other civil state, all citizens must be equals according to the law and constitution without religious favoritism, even with being the Islamic regulations are the primary sources of legislation in the constitution of Palestine as mentioned before in the previous sections. However, the idea of setting up dual taxation system based on the religion,

one for Muslims and other for non-Muslims is violating the concept of the civil state by imposing the Zakat among a group of citizens or residents. However, Pakistan is an example of countries that impose Zakat as part of the constitution, and it automatic deduction of by banks at the first week of *Ramadan* month (Arskal Salim, 2008: 117). Other examples will be mentioned in the next chapters.

There are several ways to encourage people to pay for Zakat and Waqf. The first way is by regulating tax benefits for the people who contributed to these charities. In this way, the Zakat payer may get tax reduction with certain percentages from the income tax. It will help for promoting the culture of giving to the Palestinians in general. In the other side, the collectors of Zakat must be certified and recognized by the Palestinian government and its agencies to ensure avoiding the tax evasion. Also, the charitable Waqf properties and revenues must be tax-free.

### **Misuse of Zakat and Waqf revenues**

Zakat is being misused when part of funds was not distributed among the eight classes of recipients, who are entitled to get the Zakat as mentioned before in the previous sections.

For Waqf, it is being misused when it deviated from its desired goal or purpose by *Mutawalli al-waqf* or others.

Some collectors of Zakat or any other alms are not qualified or even faked represents another case of misusing these revenues. They are simply swindlers, beggars, and trying to delude the naive people. The begging has become a profession and profitable business for them. It is a serious social phenomenon spreading in Palestinian regions dramatically, and many of children, women, elderly and people with disabilities or special needs have been recruited by organized gangs (Wafa, 2011). They typically spread out seasonally such as in Ramadan, and holidays and they prefer to be located in specific areas such as hospitals, banks, mosques, churches, and markets. Those beggars use several tricks to gain sympathy and generate compassion, and extending a helping hand, exploiting the religious, moral and humanitarian aspects in the hearts of the naive people. Several stories about millionaire beggars were revealed. And to handle the begging phenomenon, the Palestinian authorities must criminalize it side by side with encouraging the donors to pay for certified Zakat institutions or charities. Another form of misusing these revenues is by investing in such failing or very risky businesses with no real management.

### **Restrictions on collecting and distribution of Zakat**

The confiscation of money comes from both the Israeli army and Palestinian Authority because of the fear of using these funds for the armed groups. As mentioned in this thesis, several militant groups are operating in the Palestinian areas. Some of them are Islamic radical groups such as Hamas, and Islamic Jihad Movement in Palestine. However, there is a fear among the people not to be associated with terrorism in the case of collecting Zakat or any other alms (Royle, 2016: 38).

### **The misappropriation of Zakat and Waqf revenues**

A significant Zakat, Waqf, and Zakat-ul-Fitr payments are paid without receipts. It may lead to less tracking these revenues because of the lack of auditing system at the institutions

or charities who receive the donations from the individuals in general. Although, being trustworthy, righteous and honest are the essential characteristics of worker of Zakat. However, this thesis does not contain reports for misappropriation of Zakat in Palestine, but this challenge cannot be neglected with the fact that Palestine occupied the rank 107<sup>th</sup> in the Corruption Perception Index (CPI) in 2005 as mentioned before in the previous sections. Anyway, it is necessary to put these charities and institutions under the supervision and monitoring in the Palestinian regions.

### **Lack of risk assessment or management in the Islamic financing system**

The risk is the potential for an unwanted negative consequence of an event or activity (Ngozi Vivian Okoye, 2015: 65).

Also, the risk can be defined as the likelihood that the outcome of a process will not meet expectations according to *Knechel. W. R* (2002).

According to *Morisano* (2009), there are several risk management issues concerning the Islamic finance system, and the following are two of them:

#### **- Credit risk**

In such cases like profit-sharing financing, the risk here is when the borrower does not pay to the lender or *the Waqf institution*, in this case, the profit-share when it is promised or is due. Also, when the *Waqf institution* has no access to the real profit information.

#### **- Liquidity risk**

As an example of this risk is when *the Waqf institution* as an investor has insufficient financial resources, there will be no way to borrow as interest-based loan transactions due to the prohibition of Shari'a.

### **Lack of experience in term of investment Zakat and Waqf in Palestine**

Any investment requires to setup plan and strategy to succeed. Even though; new changes might be introduced such as new technologies or new competitors. It is an open market, and the competition is always expected.

As mentioned before in the previous chapter, there are several modern ways for investment. The most typical traditional investment for Waqf in Palestine is just leasing such building or *Waqf* and collecting its revenue because it is a safe investment with much experience is required.

The lack of experience is related to insufficient specialist educational institutions for Islamic financing in the Palestinian regions.

## **3.5 Conclusion**

In the light of the preceding, there are several Zakat committees and Waqf institutions are already running in Palestine under the supervision of different agencies. It is noted that each Zakat Committee serves such particular and regional area and the lack of collaboration between these institutions. Even the establishment of the Palestinian Zakat Fund as an official comprehensive framework for the Zakat institutions did not change much. However, the Palestinian people prefer to pay the alms and Zakat to such the cooperative Zakat committee directly as long as these are independent and far from any interference by government.

The investment of Zakat and Waqf has been discussed and analyzed. And it is highly recommended for several reasons. One of them is to get the maximum benefits out of it and to keep the Waqf property sustained and functional for the future and next generations. Setting up a proper management in Zakat and Waqf institutions is required to facilitate the integration between the phases of collection, investment and distribution of the revenues.

The challenges and impediments of utilizing Zakat and Waqf institutions efficiently have been discussed and analyzed. It is required to find solutions to these difficulties. Even though, it should not be a stumbling block for activating Zakat and Waqf institutions to tackle poverty and supporting investment in Palestine.

## Chapter 4 – Investment of Zakat: A Case study of Malaysia as a role model for Palestine

### 4.1 Introduction

There are several majority Muslim countries that have imposed the mandatory Zakat collection system, and these countries include Libya, Sudan, Pakistan, Saudi Arabia, and Yemen (Hasan, 2015: 130). Even though there is a legal obligation to pay Zakat in these countries, they have some differences regarding the methods of collection and distribution of Zakat, and even the coverage type of Zakat such as Money, agricultural products, livestock, and so forth (Sadeq, 1994: 45). Other majority Muslim countries have the collection of Zakat as a voluntary system, and these countries include the Hashemite Kingdom of Jordan and the state of Kuwait. This chapter will study the experience of Malaysia in managing and investing of Zakat and Waqf fund.

Malaysia is a federal constitutional monarchy located in Southeast Asia, and it is known as a multicultural, multi-ethnic and multi-religious country (IBP Inc, 2015: 8). Islam is the state religion according to the Malaysian Constitution with more than the half of population is Muslim, but the protection of religious and ethnic minorities is stipulated by the law too. The reason for selecting Malaysia as a case study this section because it has developed sophisticated and modern financial regulation laws based on the Islamic finance rules, started after 1984 when *Mahathir bin Mohamad* governmental administration declared its policy to *Islamize the government machinery* (Mutalib, 1993: 30). They were able to integrate the Zakat institutions into the mainstream Malaysian economy successfully. The successful story in tackling and eradicating poverty in Malaysia is the second reason for selecting this country. According to the *World Bank*, Malaysia is an upper-middle income country, and the poverty rate reduced by 50 percent in the 1960s to less than 1 percent in 2016 among the households in Malaysia, when the Malaysian economic moved from dependence on producing the raw natural resources materials to more diversified and industrialized market economy according to World Bank (2016). With continuing its successful story, the Malaysian Prime Minister *Najib Razak* announced in March 2010 for an economic plan called New Economic Model (NEM) to allow the Malaysian economy to join the ranks of high-income economies, but without all of the costs for that (Schellekens, 2010).

However, this chapter will not go through all parts in the Malaysian revival economy, but only the regulations which are related to the collection, investment and distribution of Zakat and Waqf in that country. Also, it will study their experience in that field which can be utilized and adopted in the Palestinian economy to tackle the poverty side by side with preserving the originality and contemporary. The Malaysian experience has several challenges in investing Zakat, one of these challenges is finding the appropriate investment through the objective of the spirit of Islamic teachings or approaches, and it is known as *Maqasid As-Shari'a*. As mentioned before in the previous sections, that the investment of Zakat is highly restricted for several reasons.

However, in spite of the significant role of Zakat institutions in the Malaysian economy, but it did not reach its full potential yet, and more effort is still needed to improve that

situation due to several reasons such as inefficient of distribution Zakat fund, inexistence of performance measurement and weakness in corporate governance practice according to *Nur Zehan Kairi* (Omar, 2015: 316). Even though with existing these shortcomings, but the Malaysian experience remains one the most successful stories in managing Zakat and Waqf at the contemporary Islamic World.

#### **4.2 An overview of Zakat and Waqf institutions in Malaysia**

According to Abdul Aziz et al. (2013) “*Zakat institution is considered as a person that has been appointed to execute Zakat distribution on behalf of the Zakat payer*”.

However, from the perspective of the Malaysian economic philosophy, the Malaysian authorities encourage their people to pay Zakat, and authorities recognized that fund as an important source to eradicate the poverty in Malaysia. And to achieve that target, the Malaysian authorities have been established Zakat fund in 1991, initially at three federal states in according to *Duha al-Islam* (Al Jazeera, 2010). There are two levels of management of Zakat in Malaysia (Abdul Aziz et al., 2013).

The first level is the *federal government*, and it is presented by *the Department of Waqaf, Zakat, and Hajj* (JAWHAR) to ensure that the Awqaf properties, Zakat and Hajj are managed in a systematic and efficient manner. It was established in 2004 by the fifth Prime Minister of Malaysia, *Abdullah Ahmad Badawi*, with no real executive power over any of Zakat institutions in Malaysia according to *Zainal et al.* (2016: 46-54), however, its role is limited to planning, coordination, implementation of policies and development programs for Awqaf, Zakat and Hajj institutions in the context of the Malaysia’s development plan according to *Abul Aziz et al.*

The second level is the state government. For this level, the Zakat and Waqf institutions are managed by the State Islamic Religious Councils (SIRCs). These councils have been established since the colonial period, years before the independent and union of Malaysia (Omar, 2015: 316). These councils are located in all federal states in Malaysia and collaborated by exchanging views on issues of mutual concern. Collection and distribution of Zakat are parts of their responsibilities, side by side with their primary role of issuing the legal opinion known as a fatwa. Some of State Islamic Religious Councils have already corporatized their collection and distribution of Zakat units to improve and increase their performance and efficacy. Significantly, the amount of collected Zakat has been increased since the collection and distribution of Zakat have been corporatized. As an example for that, the collection of Zakat by Lembaga Zakat Selangor has increased been from RM (Malaysian Ringgit) 13.8 million in 1991 the year after corporatization to RM (Malaysian Ringgit) 336.8 million in 2010 (Masturah, 2015: 133). In this level, there are three structures or classifications of the state Zakat institutions in Malaysia according to *Abdul Aziz*. The first classification is that the collection and distribution of Zakat in under the sub-division of SIRC, or independent government body. It is implemented in *Perlis, Perak, Kedah, Sabah, Johor, Kelantan, Terengganu and Selangor* federal states. The second classification is that the segregation of the collection and distribution Zakat centers, and it is implemented in *Wilayah Persekutuan, Malacca, Negeri Sembilan and Pahang* federal states. In this case, the collection of Zakat is controlled by the corporate center, while SIRC controls the distribution of Zakat.

Corporate collection and distribution Zakat center is the third classification. This type is implemented in *Pulau Pinang* and *Sarawak* federal states to corporatize Zakat institutions that will handle both collection and distribution and of Zakat according to *Abdul Aziz*.

### **4.3 Methods of collecting Zakat**

There are three methods for collecting Zakat funds in Malaysia according to *MAHAMOD* (2011: 111). *The first method* is the Zakat payer can pay the payment of Zakat directly to the collected Zakat offices. Calculating of Zakat payment will be the responsibly of the Zakat payer and the certified Zakat collectors. It is a common method among the merchants, and the owners of private businesses. This approach is common used by the Palestinian Zakat committees.

*The second method* is paying of Zakat will be proceeded through the appointed staff for collecting Zakat. There is not much difference between this approach and the first one. The only difference is that the certified Zakat collectors will make a visit to the workplace of the Zakat payer to collect the payment of Zakat after calculating its share.

*The third method* is payment of Zakat on by monthly deduction from the salaries of the public or private employees. This approach is known as *Zakat on earnings*.

In this case, the payment of Zakat will be calculated based on the income of the whole year, but its monthly share will be deducted automatically every month. For example, assuming the monthly salary is 2000 RM (i.e. *Malaysian Ringgit currency*). Calculating the total income per year will be  $2,000 \text{ RM} * 12 \text{ months} = 24,000 \text{ RM}$ . Before going through payment of Zakat, it is required to verify if that income exceeds the threshold of *Nisab*, so it will be obligatory as mentioned before in the previous chapters.

If it passes the condition of *Nisab*, then continue calculating the payment of Zakat that should be paid  $24000 * 0.025 \text{ Zakat rate} = 600 \text{ RM}$  for the whole year. The last step is figuring out the payment of Zakat which will be paid or deducted directly from the salary every month will follow this formula  $600/12 \text{ months} = 50 \text{ RM}$ . This procedure is very simple, and it will be changed for the benefit Zakat payer when taking into consideration the expenses of wife and children.

### **4.4 Investment of Zakat fund**

According to *Dr. Abdul Bari Awang* (2011), the *Baitulmal* institution is responsible for investing surplus Zakat funds. This process is done firstly by depositing Zakat funds in five different local banks and then depositing them again in one account for that institution in *Bank Islam Malaysia Berhad* to be invested there side by side with other fund resources with no separation between them. *Baitulmal* has several methods and fields such as hospitals, and holding shares in different companies and banks.

Another method is investment in real estates such as buying paddy fields, and then rented it again to the previous owner or another farmer. Another way of investment is by investing in fixed deposit or fixed saving accounts according to *MAHAMOD* (2011: 140-142). It includes an investment of Zakat in financial instruments and subsidiaries too.

However, with the purpose of supporting Zakat system and willing to share the Malaysian experience with the others; the Malaysian government announced the World Zakat Fund (WZF). It was set up by the BMB Group to collect and distribute Zakat in an organized manner making use of modern management techniques in 2009 (Abdul Ghafour, 2009).

#### **4.5 Conclusion**

In the light of the preceding, short overview about Malaysia including their Zakat institution was introduced, and analysing their method of collecting and investing Zakat funds. The first method of collecting Zakat is commonly used by the Palestinian committees, even paying of Zakat is not mandatory according to the Palestinian law. The second method is very interesting. It is not difficult to implement it in the Palestinian territories. And implementing it may help to raise awareness of the importance of Zakat among the Palestinians, while, it is not easy to implement the third method in the Palestinian because of the need for legislation from the lawmakers, because of the differences of opinion among the various Islamic jurisprudential schools. However, both methods of collecting Zakat are very interesting, and valuable.

In terms in investing Zakat funds; the Malaysian experience is a long and valuable, because of using several modern techniques for investment.

However, the Malaysian experience is useful in terms of collection and investing Zakat funds and it should be taken into consideration when developing the Zakat institution system in Palestine.



## **Conclusion and Recommendations**

In the light of the preceding, the development of the Palestinian economy has several impediments, and the Israeli occupation is one of the barriers because of controlling most of the economic activities including the natural resources in the Palestinian regions. By studying and analyzing the possibilities of activating two Islamic concepts Zakat and Waqf as sources of funds for investment, and using them as tools to tackle poverty in the Palestinian regions; it is noted based on the characteristic of Zakat and Waqf as parts of the economic system in Islam highly encourage to support that using several methods. And the Waqf itself is an investment. This thesis has listed several methods which can be utilized by Waqf and Zakat as a source of investment such as Microfinance.

The situation of the Palestinian economy including its sectoral structure has been discussed and analyzed. As situated, there are several weakness and strength points in the Palestinian economy for investment. However, it is highly connected with the Israeli economy and bound by Oslo peace accords and their economic protocol. Removal of the Israeli restrictions is an essential factor to apply the required reforms on the Palestinian economy. Despite all, the investment in the Palestinian territories is still promising and ambitious.

Some challenges and impediments of utilizing Zakat and Waqf institutions efficiently have been discussed and analyzed. Some of these difficulties are interconnecting with the lack of experience, restrictions on collecting and distribution of Zakat, and the potential of misuse and misappropriation of Zakat and Waqf revenues in some cases. It is required to find solutions to these difficulties. Even though, it should not be a stumbling block for activating Zakat and Waqf institutions to tackle poverty and supporting investment in Palestine.

The Malaysian experience is useful regarding the collection and investing Zakat funds, and it should be taken into consideration when developing the Zakat institution system in Palestine.

There are some general recommendations have to be considered for setting up an efficient mechanism for activating Zakat and Waqf institutions.

- Restructuring the Palestinian Zakat Fund by inspiring the Malaysian experience regarding the collection and investing Zakat funds.
- Promoting the culture of giving among the Palestinians, and importance of Social solidarity in the community.
- Offering tax incentives to the government and the tax authorities to the Zakat payers and any other alms when it is paid to certified and recognized institutions.
- Collaboration between the Zakat and Waqf institutions and all sectors of society to get a list of real poor and needy people.

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